



Office of Audit Services
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September 8, 2006

AGENDA ITEM 4

TO: MEMBERS OF THE FINANCE COMMITTEE

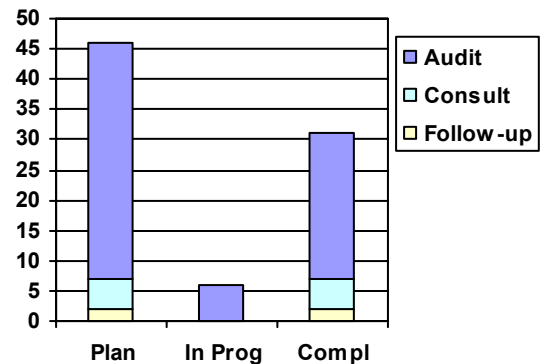
- I. SUBJECT:** Quarterly and Year End Status Report
- II. PROGRAM:** Audit Services
- III. RECOMMENDATION:** Information only
- IV. SUMMARY:**

In accordance with the Finance Committee's Audit Resolution Policy and Procedures, the Office of Audit Services presents its Quarterly Status and Year-End Report of audit activity. The following provides the status of audits and special projects as of June 30, 2006.

1. Status of projects and activities in the Fiscal Year 2005 / 2006 Board approved annual Audit Plan

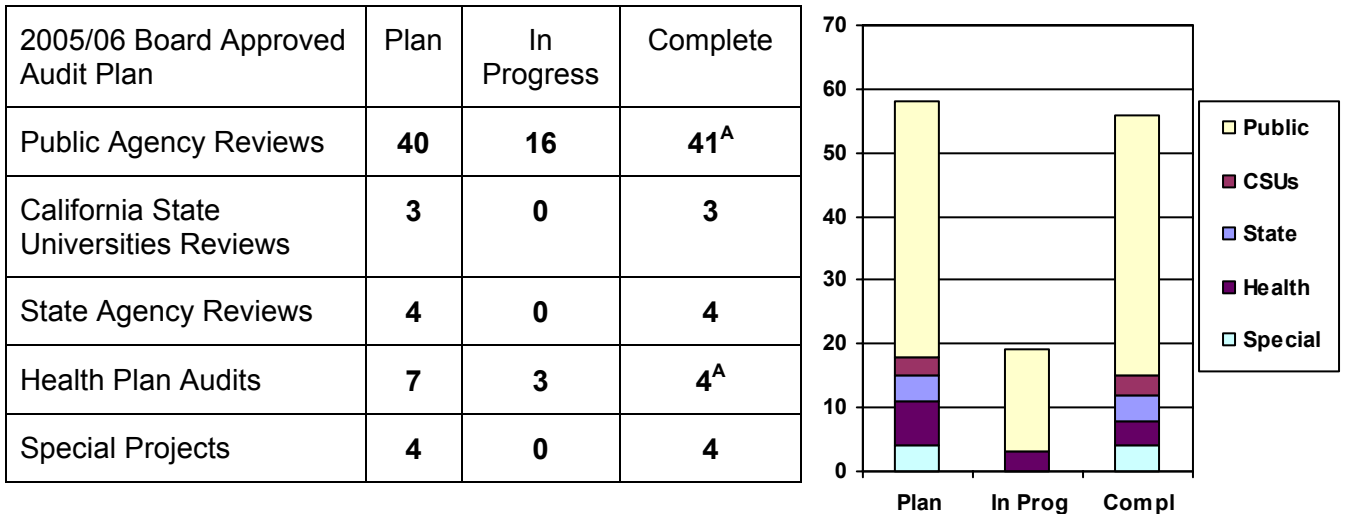
- A. Internal Audits – Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Detail on these projects is provided on Attachment 1A.

2005/06 Board Approved Audit Plan	Plan	In Progress	Complete
Audit Projects	39	6	24 ^A
Consulting Projects	5	0	5
Audit Follow-up	2	0	2

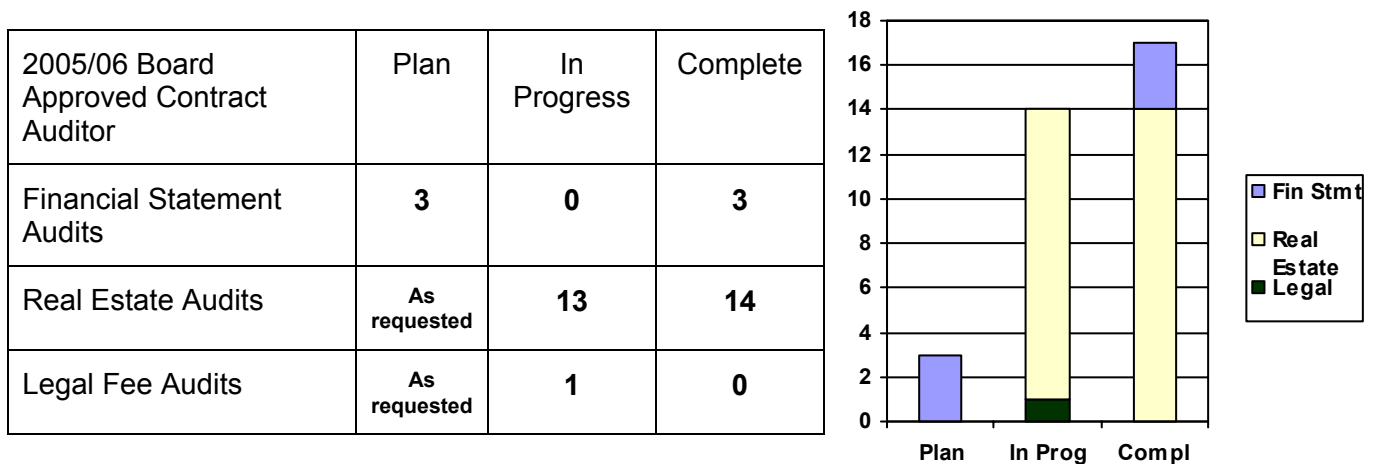


A – Includes projects that started in prior fiscal year as outlined in Attachment 1A.

B. Field Audits and Reviews— Field audits and reviews include compliance reviews of employer entities belonging to the System, audits of Health Maintenance Organizations contracting with the System, compliance audits of health care third-party administrators, and audits of external providers of investment-related services. Detail on these projects is provided on Attachment 1B.



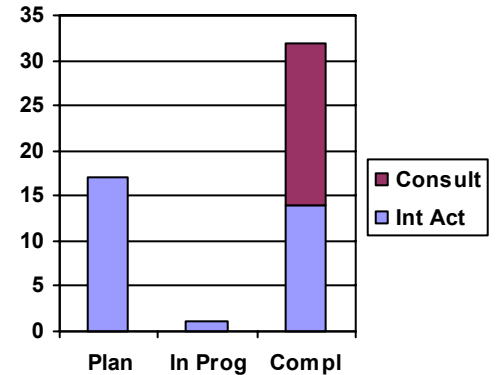
C. Contract Audits – Contract audits include audit work performed by external auditors. The number of real estate and legal fee audits is determined over the course of the fiscal year. Detail on these projects is provided on Attachment 1C.



A- Includes projects started in prior fiscal year as outlined in Attachment 1B.

D. Management Consulting Projects - In addition to the specific projects in the approved Audit Plan, during the year the Office of Audit Services responds to subsequent requests from the Board of Administration, Executive Management, and program divisions for audit and consulting projects. The approved Audit Plan includes an allocation of hours for these projects. Detail on these projects is provided in Attachment 1D.

Management Consulting Projects	Plan	In Progress	Complete
Management Consulting Projects	As requested	0	18
Office of Audit Services Internal Activities	17	1	14

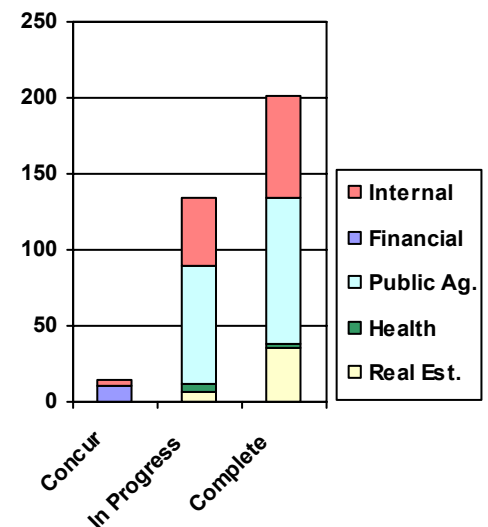


2. Findings / issues resulting from auditing work

A status of *Concur* indicates management has agreed with the finding and plans corrective action. *In Progress* indicates management is taking corrective action. *Complete* status indicates satisfactory resolution of the finding. *Unresolved* status indicates management does not agree with the finding or recommendation or has not taken adequate action; in such a case, the finding is referred to executive management for resolution.

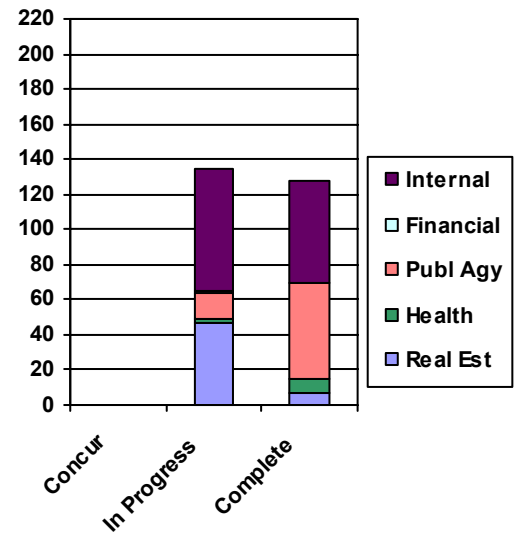
A. Findings / issues resulting from current year projects.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	3	44	67	0
Financial/External Audits	11	0	0	0
Public Agency Reviews	0	78	96	0
Health Plan Audits	0	6	2	0
Real Estate Audits	0	6	36	0



B. Findings / issues resulting from prior years' projects.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	0	69	59	0
Financial/External Audits	0	1	0	0
Public Agency Reviews	0	15	54	0
Health Plan Audits	0	2	8	0
Real Estate Audits	0	47	7	0



3. Findings / Issues

During Fiscal Year 2005/06, we completed 48 reviews of contracting entities. The most frequently reported issues were incorrect reporting of compensation, not enrolling eligible part-time employees, and payroll reporting errors. The following table is a summary of the findings included in the reports issued during Fiscal Year 2005/06.

Type of Finding – FY 2005/06	Number of Findings
Compensation	35
Enrollment	29
Payroll reporting errors	24
Unused sick leave	19
Contributions/payroll information not reported timely	17
Reinstatement of retired annuitants	14
Pay rate reporting error	12
ACES security documents	7
Publicly available salary schedule not available	5
Independent contractors	4
Industrial disability not made timely	3
Member misclassification	2
Health membership documents	2
Employer paid member contributions	1

Internal Audits

During Fiscal Year 2005/06, we completed 24 internal audits and projects focusing on enterprise risk to the organization. The areas of primary emphasis included financial accountability and internal control compliance, contracting and purchasing activities, Medicare transfer eligibility, information technology controls, benefit adjustments, and software licensing. Key issues reported included the need for improved compliance with State Administrative Manual internal control requirements, contracting and purchasing activities, issues related to information system access, benefit adjustments, and notification and follow-up to members of their eligibility for Medicare. Detail on these issues is included on Attachment 2A – Internal of this agenda item.

Audit Follow-Up

Consistent with the Audit Resolution Policy and Procedures that took effect July 2005, the Office of Audit Services worked with management to either resolve or develop corrective action plans for audit issues more than one year old, resulting in resolution of a number of older outstanding issues.

Attachment 2B – Internal details the resolution status of audit findings more than one year old. In addition, we have provided two new attachments with further analysis of outstanding findings. Attachment 3A provides detail of number of outstanding findings as of June 30, 2006, by age, for each division.

Attachment 3B provides a three-year trend of number of outstanding findings as of the end of each of the last three fiscal years, as well as the number of findings completed during the three fiscal years, for each division.

Health Plan Audits

We completed four audits of health plan contract compliance during the first three quarters of the fiscal year. These audits addressed HMO, pharmacy, and long-term care areas. The main issues identified in these audits include improved reporting of data to CalPERS and improved eligibility tracking. Detail on these findings is included on Attachment 2A – Health in this agenda item.

Financial Statement Audits

The external financial statement auditor, Deloitte and Touche, completed its audit of CalPERS' financial statements as of June 30, 2005, and presented an unqualified opinion at the November 2005 Finance Committee meeting. Deloitte presented a draft management letter summarizing all its findings and recommendations related to the financial statement audit at the February 2006 Finance Committee meeting. The issues presented by the auditor include lack of accounting reconciliations, lack of adequate accounting controls and processes for summarizing, recording, and disclosing accounting data, and certain information security concerns. Attachment 2A – Financial Statement provides detail on all of these findings.

Real Estate Audits

The external real estate auditor completed 14 compliance audits in the four quarters of Fiscal Year 2005/06. The most frequently reported issues, as in Fiscal Year 2004/05, continue to address insurance requirements, property condition, record keeping, various fee calculations, and competitive bidding. A summary of the real estate audits is found on Attachment 2A and 2B – Real Estate, included in this agenda item.

Legal Fee Audits

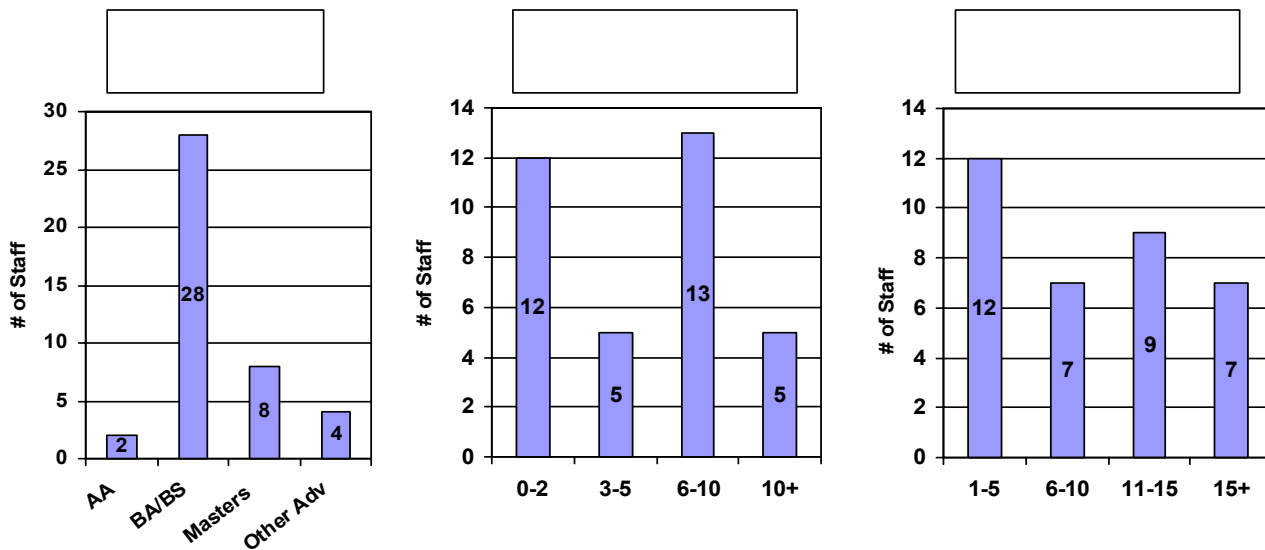
Each year, CalPERS selects one or more projects or litigation matters conducted by outside counsel to be audited by an external legal audit firm. One such engagement is currently in progress. The Legal Office plans to present the final report as an information item to the Finance Committee upon completion.

Management Consulting Projects

The Office of Audit Services completed 18 requests for management consulting projects during the fiscal year. Major projects included reconciliation assistance to Fiscal Services' Investment Accounting area, a review of the fixed income management system trading compliance, Board election observation, assistance with the accountability for performance initiative, a special review of certain benefit payments, and participation in the contract business process reengineering project.

4. Overview of Audit Services staff credentials and proficiencies

a) Education and Experience: Audit Services staff exhibit a high level of educational achievement, complemented with many years of CalPERS and total audit experience:



b) Titles and Credentials: Audit Services staff, comprised of 6 classifications, hold a wide variety of professional certifications and areas of proficiency:

Title	No. of Staff
Chief Auditor	1
Senior Program Evaluator	5
IT Auditors	3
Health Plan Auditors	3
Public Agency Auditors	10
Internal Auditors	13
Total	35

Certification	No. of Staff
Certified Internal Auditor	13
Certified Public Accountant	13
Certified Information Systems Auditor	6
Certified Governmental Financial Manager	5
Certified Investments and Derivatives Auditor	3
Certified Management Accountant	1
Attorney at Law	1
Other Professional Certifications	3

Audit Proficiency	No. of Staff
Internal Controls	20
Financial Audits	15
Public Agency Compliance	14
Risk Assessment	11
Health Programs	10
IT Systems	7
Benefit Administration	6
Investments	9
IT Security	2
Real Estate	5
Government	3
Project Management	1

V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

VI. RISKS/COST:

This is an information item and does not result in any risks/costs. Staff is available to answer any questions that the Finance Committee may have.

Larry Jensen, Chief
Office of Audit Services

Peter H. Mixon
General Counsel